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TAGS: [PGOV](#) [PREL](#) [ECON](#) [ETRD](#) [MARR](#) [PINR](#) [CI](#) [PE](#)
SUBJECT: PERU AND CHILE: CONFRONTING OBSTACLES TO IMPROVED
TIES

REF: LIMA 177 AND PREVIOUS

Classified By: POL/C ALEXIS LUDWIG FOR REASONS 1.4 (B)

¶1. (C) Summary: President Alan Garcia took office in 2006 planning to expand and deepen Peruvian relations with Chile while quietly downplaying a series of potentially thorny obstacles. The GOP continues to desire improved bilateral relations, but the obstacles to progress have been anything but quiet. The ongoing maritime border dispute is only the most visible hurdle; Chile's vast direct investment in Peru's economy as well as a wide military imbalance are additional potential sore points in an otherwise broad and expanding relationship. In seeking improved ties with Chile, the GOP is pursuing a rational interest-based calculus that must navigate a historically complicated emotional terrain characterized by deep mutual suspicion. End Summary.

Peru Wants Stronger Relations With Chile...

¶2. (SBU) Improving relations with Chile continues to be a top foreign policy priority for the GOP (refs). Our principle government contacts view Chile as a country with a shared pragmatic worldview in a region rife with populist leaders and as an economic success for Peru to emulate. Peru's free-trade and investment-friendly economic model, which the Garcia government has actively maintained and vigorously promoted, seeks in some ways to replicate Chile's accomplishments. Government officials tout the variety of free trade agreements in force or under negotiation as the most visible aspects of this pragmatic approach. The government has enthusiastically embraced its role as host for upcoming summits between Latin American and European leaders in May, and the APEC process culminating in the leaders' meeting in November, as an opportunity to boost its profile on the world stage and to underscore its insertion, following in Chile's footsteps, into the global (read: Asia-Pacific) economy. The GOP also recognizes the benefits Peru has gained from tapping into Chile's economic success via trade and investment and has vigorously promoted the expansion of direct commercial ties.

But There are Obstacles, Such as Maritime Dispute

¶3. (C) Nevertheless, there are significant impediments to expanded relations and broader integration. The most visible

obstacle remains the maritime border dispute. Peruvians, from the most radical to the most reasonable (99% of the population according to a recent poll), agree that the current maritime border was unjustly defined and illegally enforced by Chile, and that this amounted to a kind of de facto "occupation" by Chile of Peruvian national waters. (This view fuels local conspiracy theorists who claim that Chile harbors expansionist designs on more Peruvian territory.) Peruvian governments since Alan Garcia's first in the 1980s have repeatedly requested maritime border talks only to be rebuffed by Chile's argument that the border was settled and there was therefore nothing to discuss.

14. (C) Partly in frustration, partly to boost his flagging poll numbers, President Alejandro Toledo (2001-2006) signed a law in 2005 to unilaterally adjust Peru's maritime border, a move seen as the first step toward the Hague. Then-presidential candidate Alan Garcia criticized Toledo's maneuvering and promised to deemphasize the issue, which reignited in August 2007 when the GOP published new border maps in accord with the 2005 law. Now that it has submitted its brief for adjudication by the International Court of Justice (ICJ) at The Hague, the Garcia government hopes the dispute can be settled quietly and dispassionately (ref). At the same time, most Peruvians, including those in government, believe strongly in the correctness of the Peruvian argument. Echoing the prevailing perspective, one senior-level foreign ministry official told us that the difference between the Chilean and Peruvian arguments is that "we are right". (Comment: He meant this, without irony, as a statement of fact. End Comment.) Given the overwhelming popular support for Peru's case, local analysts believe the maritime border issue needed to be addressed -- presumably as it has been by the Garcia government -- in order to clear the path for a

deepening of bilateral ties.

Investment Imbalance

15. (C) A second obstacle to improved relations are nationalist sensitivities surrounding the wide investment imbalance, despite the great economic gains economic analysts say Peru has made with Chilean capital. While Peru enjoyed a more than USD 500 Million trade surplus with Chile in 2007, Chile's high profile direct investment in Peru dwarfed Peruvian investment in Chile by a factor of ten. (In 2006, Chile invested over USD 4 Billion in Peru, while Peru had USD 50 Million in Chile.) Much of Chile's investment has gone into airlines, insurance companies, and well known and successful retail establishments such as the Ripley and Saga Fallabella department stores. With the recent acquisition of Peru's largest supermarket chain, Wong, Chileans now own many of Peru's major retail and supermarket outlets. Although economists emphasize that Chilean capital will allow Wong to expand domestically and internationally, the takeover was nonetheless perceived as a blow to Peruvian national pride and interests. And despite the continued flow of Peruvians to Chilean retail chains, average citizens often express unease at alleged Chilean "control" over the economy.

16. (C) Both tabloids and respectable news sources reflect and fuel this sentiment with banner headlines about the breadth of Chilean investment, creating fertile ground for nationalist politicians. Somewhat hyperbolically, Congressman Gustavo Espinoza, spokesman for jailed nationalist leader Antauro Humala, described Chile's expanding investments here to poloffs as an effort to exercise remote control over and even "to conquer" Peru. Despite nationalist pressures, the GOP recognizes the great benefits Peru has gained from Chilean investment and has made every effort to continue deepening economic ties while downplaying the Chilean economic "threat"; Chilean investors in turn have signalled their desire to continue investing in Peru's booming economy.

Military Disparity

17. (C) A third obstacle to deepened bilateral relations is

the hugely asymmetrical modernity and strength of Chile's military compared to Peru's. Peruvian investment in new military hardware declined drastically during President Toledo's term to less than \$100 million in five years. At the time, Toledo called on Chile to match Peru's cutback and in 2001 the two governments agreed to set up a ministerial commission to discuss harmonization of military purchases. Instead of harmony, Peru's equipment fell into disrepair while Chile's, fueled by billions spent on new planes, boats, and tanks, continued to modernize and expand. The yawning disparity and sense of alleged "betrayal" have stoked the fears of some Peruvians that their government is not adequately protecting the homeland from the supposed threat of a Chilean invasion.

18. (C) Regular front page news reports about Chile's military advantage and continued build-up (mostly but not only in the tabloid press) help fuel the perception of danger and threat. One analyst pointed to a series of "...newspapers, blogs, and spokespeople that paint Chile as a hopelessly embittered neighbor bent on subjugating Peru..." Reflecting these fears, several of the Embassy's senior military contacts say they view Chile as the nation's greatest external threat. The GOP's current five-year military modernization program includes \$650 million for repairs and new equipment. While much of this is focused on internal threats such as narco-trafficking and remnant terrorism networks, a significant portion is dedicated to defense against external threats, principally Chile. Senior civilian defense officials privately lament the need to respond to the glaring military imbalance, but acknowledge that failing to be seen as doing so would be tantamount to political suicide.

Comment: Rational Interests Face Emotional Obstacles

19. (C) Comment: In seeking to intensify and expand its ties

with Chile, the Garcia government is pursuing a rational, interest-based foreign policy calculus. And there is no doubt that Chile's economic success and institutional strengths have much to teach a Peru keen on following a similar path. At the same time, the GOP's desired rapprochement with Chile entails its navigating a highly emotional historical terrain fraught with mutual suspicion and (from an outsider's perspective) irrational attitudes that color the views of players from across the political spectrum. As an illustrative example, even Peru's conservative Arch-Bishop from Lima, Cardinal Juan Luis Cipriani, told us recently that Chile posed a greater long-term threat to Peru's interests than did Venezuela. In this complicated context, it should be no surprise that the road to better bilateral relations includes an occasional bump, large or small. We should just hope -- and do what we can to help ensure -- that the shake and rumble that results does not derail the effort.

MCKINLEY